

Message Text

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PAGE 01 LISBON 06136 081714Z
ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 NSC-05
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 FEA-01
AGRE-00 OES-07 /094 W
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FM AMEMBASSY LISBON
TO SECSTATE WASHDC 2544

C O N F I D E N T I A L LISBON 6136

DPET. PASS SYVRUD AT TREASURY

E.O. 11652: GDS
TAGS: EFIN, ECON, PO
SUBJECT: PRESS ANNOUNCES IMPENDING ESCUDO DEVALUATION;
PM SOARES ISSUES WEAK DENIAL

REF: LISBON 6073

SUMMARY. CENTER-LEFT WEEKLY "EXPRESSO", IN AUGUST 6 EDITION,
HEADLINES SECOND PACKAGE OF ECONOMIC BELT-TIGHTENING MEASURES
WHICH IT SAYS GOP WILL ANNOUNCE ON FRIDAY, AUGUST 13. MEASURES
FORESEEN INCLUDE FURTHER 8 PERCENT ESCUDO DEVALUATION, MINIMUM
4 PERCENT HIKE IN INTEREST RATES, HIGHER PRICES, AND
MEASURES AIMED AT RESTORING ECONOMIC VIABILITY OF TEETERING
FIRMS. PM SOARES' "DENIAL" AUGUST 7 WAS UNCONVINCING.
END SUMMARY.

1. AUGUST 6 EDITION OF CENTER-LEFT WEEKLY "EXPRESSO" HEADLINES
PACKAGE OF ECONOMIC AUSTERITY MEASURES IT SAYS GOP PLANS
ANNOUNCE ON AUGUST 13. ARTICLE SAYS GENERAL PACKAGE WAS
HAMMERED OUT LATE LAST WEEK AND FOLLOWS CLOSELY PROPOSALS MADE
LAST MAY TO COUNCIL OF MINISTERS BY FINMIN MEDINA
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PAGE 02 LISBON 06136 081714Z

CARREIRA (AND "PREVIEWED" IN PLANNING MINISTER SOUSA
GOMES' LENGTHY PRESS INTERVIEW AUGUST 3, (REFTEL.)
DETAILS ARE TO BE IRONED OUT THIS WEEK BY CABINET.

2. PROPOSED MEASURES INCLUDE:
A. MINIMUM EIGHT ESCUDO DEVALUATION, WITH DOWN-
WARD CRAWLING PEG OF ADDITIONAL 1.5 PERCENT MONTHLY SHOULD

EXCHANGE MARKET CONDITIONS WARRANT;
B. MINIMUM INCREASE OF FOUR PERCENT IN INTEREST RATES,
DEPENDING ON AMOUNT OF DEVALUATION ULTIMATELY
AGREED UPON;
C. HIGHER GASOLINE PRICES, WITH POSSIBLE RATIONING
AS WELL;
D. HIGHER PRICES FOR OTHER GOODS AND SERVICES, INCLUDING
PUBLIC TRANSPORT;
E. SPECIAL DISPENSATION, VIA NEW LEGISLATION, FOR FIRMS
IN DIRES ECONOMIC AND FINANCIAL STRAITS TO PERMIT THEM TO
DISREGARD LABOR CONTRACTS ANY PAY LOWER WAGES, IF JUDGED
NECESSARY TO EXTRICATE THEM FROM PRECARIOUS FINANCIAL
POSITION. TOURISM, FISHERIES, AND MEDIA SECTORS MOST
LIKELY TO BE AFFECTED;
F. MEASURES TO PERMIT INSOLVENT FIRMS TO DECLARE BANKRUPTCY
AND TO PROVIDE UNEMPLOYMENT COMPENSATION TO EMPLOYEES.
G. CREATION OF CONTRACTUAL RELATIONSHIP BETWEEN GOP
AND PUBLIC ENTERPRISES THROUGH WHICH GOP COULD SET PER-
FORMANCE STANDARDS, AND INITIATION OF REGULAR INSPECTION
BY GOVERNMENT AUDITORS OF GOP-SUBSIDIZED FIRMS TO INSURE
ACCOUNTABILITY OF PUBLIC RESOURCES;
H. PORTUGUESE FIRMS WITH OPERATIONS ABROAD WILL BE REQUIRED
TO REPATRIATE EARNINGS BY A GIVEN DATE;
I. STRICT CONTROLS OVER FIRMS' INVENTORIES WILL BE
INTRODUCED TO PREVENT SPECULATIVE WITHHOLDING OF STOCKS
FROM MARKET IN ANTICIPATION OF HIGHER PRICES;
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PAGE 03 LISBON 06136 081714Z

J. ESTABLISHMENT OF A "FUNDO NACIONAL DE DESENVOLVIMENTO
ECONOMICO," TASKED WITH PROVIDING FINANCING FOR INDUSTRIES
TARGETED IN GOP DEVELOPMENT PLAN, AND CREATION OF THE
"INSTITUTO FINANCEIRO DE APOIO AO DESENVOLVIMENTO DA AGRI-
CULTURA E PESCA," THAT WOULD PROVIDE SIMILAR SUPPORT FOR
AGRICULTURE AND FISHING INDUSTRIES.
K. AS MEANS OF ATTRACTING PRIVATE SAVINGS, FIRMS WILL
BE AUTHORIZED TO ISSUE EQUITY SHARES AND DEBT ISSUES
OF VARYING MATURITY.

3. PM SOARES' AUGUST 7 DENIAL OF IMPENDING ESCUDO DEVALUATION
COULD FORCE GOP'S HAND AHEAD OF SCHEDULE SHOULD PRESSURE
ON FOREIGN EXCHANGE RESERVES BE FURTHER EXACERBATED. (DURING
VISIT TO NORTHEAST OF COUNTRY AUGUST 7, PM SAID TO PRESS
THAT RUMORS SUCH AS DEVALUATION SHOULD NOT BE
LIGHTLY AIRED, UNLESS RUMORS HAVE AT LEAST MINIMUM BASIS
IN FACT, WHICH HE THEN PROCEEDED TO SAY ARE LACKING IN
PRESENT INSTANCE.)

4. COMMUNIST "O DIARIO" PREDICTABLY CALLED MEASURES CITED
BY "EXPRESSO", PARTICULARLY DEVALUATION AND PRICE HIKES,
CAPITULATION TO IMPERIALIST PRESSURES, REINFORCED BY

RECENT VISIT BY IMF TEAM.

5. COMMENT: "ESPRESSO" ARTICLES MAY BE CLOSE TO THE MARK.
AUGUST 3 INTERVIEW OF PLANNING MINISTER, IN WHICH HE ARGUED
NEED FOR MANY OF MEASURES CITED ABOVE, TELEGRAPHS CURRENT
GOP THINKING.
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Message Attributes

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Sent Date: 08-Aug-1977 12:00:00 am
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